Canadian Pacific Investments Limited

Annual Report 1970

Principal Subsidiary Companies

Central-Del Rio Oils Limited

Head Office:
Natural Resources Building,
205-9th Avenue S.E.,
Calgary 21, Alberta

CanPac Minerals Limited

Head Office:
Natural Resources Building,
205-9th Avenue S.E.,
Calgary 21, Alberta

Fording Coal Limited

Head Office: Trail, British Columbia

Pacific Logging Company Limited

Head Office: 468 Belleville Street,
Victoria, British Columbia

Marathon Realty Company Limited

Head Office:
205-9th Avenue S.E.,
Calgary 21, Alberta

Room 212, CP Rail Station,
Vancouver 2, British Columbia

Suite 873, 125-9th Avenue S.E.,
Calgary 21, Alberta

2124 Broad Street,
Regina Saskatchewan

69 Yonge Street,
Toronto 1, Ontario

Suite 1930, Place du Canada,
Montreal 101, Quebec

Canadian Pacific Hotels Limited

Head Office: Royal York Hotel,
Toronto 116, Ontario

Empress Hotel,
Victoria, British Columbia

Palliser Hotel, Calgary 21, Alberta

Banff Springs Hotel, Banff, Alberta

Chateau Lake Louise,
Lake Louise, Alberta

Chateau Lacombe, Edmonton, Alberta

Hotel Saskatchewan,
Regina, Saskatchewan

Skylon Restaurants,
Niagara Falls, Ontario

Le Château Champlain,
Montreal 101, Quebec

Le Baron Motor Hotel,
Sherbrooke, Quebec

Le Baron Motor Hotel,
Trois-Rivières, Quebec

Le Château Frontenac,
Quebec City 4, Quebec

Le Château Montebello,
Montebello, Quebec

Canadian Pacific Securities Limited

Head Office:
Room 247, Windsor Station,
Montreal 101, Quebec

Cominco Ltd.

Head Office:
630 Dorchester Blvd. West,
Montreal 101, Quebec

Annual Report 1970

Notice of Annual Meeting of Shareholders

The Annual Meeting of the Shareholders of Canadian Pacific Investments Limited will be held on Monday, April 26th, 1971, at Le Château Champlain, Place du Canada, Montreal, Quebec, at 11:00 A.M. (daylight saving time, if operative), for the following purposes:

a. to receive and, if deemed fit, approve the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1970;

b. to elect Directors;

c. to appoint Auditors and to authorize the Board of Directors to fix their remuneration; and

d. to transact such other business as may properly come before the meeting.

By order of the Board,
J. C. Ames, Secretary.

Montreal, March 5th, 1971.

Contents

Board of Directors and Officers

Directors

*W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company,
Montreal

*A. M. Campbell,
Chairman and chief executive officer,
Sun Life Assurance Company of Canada,
Montreal

*N. R. Crump, *Chairman of the Company,*
Canadian Pacific Railway Company, Montreal

R. Hendricks,
President and Chief Executive Officer,
Cominco Ltd., Vancouver

S. E. Nixon, *Director,*
Dominion Securities Corporation Limited,
Montreal

H. M. Pickard, *Executive Vice-President,*
Canadian Pacific Investments Limited, Calgary

*The Hon. Duff Roblin, P.C., C.C., *President,*
Canadian Pacific Investments Limited,
Montreal

*Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

G. J. van den Berg, *Vice-President, Finance,*
Canadian Pacific Railway Company, Montreal

*Member of Executive Committee

Officers

N. R. Crump,
Chairman and Chief Executive Officer,
Montreal

The Hon. Duff Roblin, P.C., C.C., *President,*
Montreal

Ian D. Sinclair, *Vice-President,*
Montreal

H. M. Pickard, *Executive Vice-President,*
Calgary

G. J. van den Berg,
Vice-President, Investments, Montreal

F. A. Rutherford, *Comptroller,* Montreal

D. E. Sloan, *Treasurer,* Montreal

J. C. Ames, *Secretary,* Montreal

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Financial Results of 1970

Like Canadian corporations generally, the Company experienced a profit squeeze in 1970. This particularly affected its timberland and mining interests.

The fight against inflation was a dominant factor in the Canadian economy in 1970. A result of this was that economic growth was far short of its potential. The problems deriving from this general condition were aggravated for certain of the Company's interests by such factors as the decline after mid-year in lead and zinc prices, the freeing of the Canadian dollar and all-time high interest rates.

Consolidated income before extraordinary items amounted to $37.8 million, compared with $41.0 million in 1969. Income per Common share was 66¢, compared with 72¢ in 1969. Earnings including extraordinary items were 69¢ per Common share in 1970 and 78¢ in the previous year.

The sharp decline in the demand for forest products which became evident late in 1969 continued throughout 1970. This depressed condition of the markets and the drop in log and lumber prices reduced the earnings from timberlands and related facilities $1.4 million below those of 1969. Prolonged labor disputes in a number of segments of the industry aggravated the marketing problem.

The Company's equity in the net income of Cominco Ltd., including extraordinary items, declined by $3.0 million from 1969. The decrease in Cominco's earnings before extraordinary items was largely attributable to increased labor and services costs, the appreciation of the value of the Canadian dollar in relation to foreign currencies, and successive reductions in metal prices after mid-1970. Prices of both lead and zinc fell under pressure of reduced demand, partly as a result of economic policies aimed at controlling inflation and partly due to strikes in the automobile industry in North America. Market conditions for fertilizers in the United States were somewhat better than in the previous year. In Canada, however, high inventories and substantial over-capacity resulted in strong competitive pressures and unsatisfactory price levels.

Income from real estate and related operations was $476,000 lower, because of higher cost of money and a sluggish economy. In addition, abnormal delays in construction due to strikes resulted in delays in bringing new projects into operation.

Net income from oil, gas and other minerals was down $328,000 from 1969. Higher gross operating revenues were offset by increased expenses, due primarily to the cost of borrowings for exploration and production activities and to higher depletion charges. Oil and gas discoveries made during the year have enlarged the Company's reserves, which combined with higher prices for oil should have a favorable effect on future earnings.

Income from hotels and restaurants held steady. Gross revenues were higher, but operating cost increases and higher interest rates resulted in net income remaining virtually unchanged.

Investment income was $225,000 lower because of a continuation of the shift from temporary investments to equities. Major purchases during the year were $6.3 million of the common stock of The Great Lakes Paper Company, Limited and $2.6 million of the common stock of MacMillan Bloedel Limited. Dividend rates on the major portfolio holdings of common stocks were at the same level in 1970 as in the previous year.

Dividends declared on the Company's 4¾% Preferred shares, Series A, totalled $4.7 million. Dividends on the Common shares amounted to $23.7 million, and were at the rate of 47.33¢ per share. In 1969 Common dividends were $23.0 million, at the rate of 46.0¢ per share.

The Directors are pleased to take this opportunity to express their appreciation of the fine efforts of officers and employees of all the CPI companies.

For the Directors,

Duff Roblin

President

N R Crump

Chairman and Chief Executive Officer

Montreal, March 5, 1971

Jumping Pound gas plant, west of Calgary, Alta., in which Central-Del Rio Oils owns a substantial interest.

Central-Del Rio Oils geological survey in western Alberta.

Energy

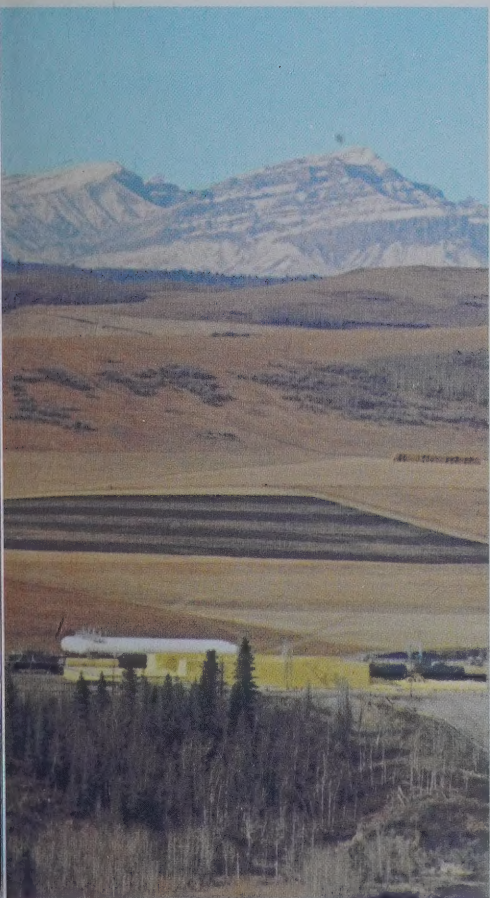
The energy crisis in the eastern United States last year brought sharply to public attention the gap between the expansion of fuel needs and the availability of supplies to meet those needs. Forecasts of Canada's energy needs alone show an expected growth rate of close to 5% per year over the next two decades. In this setting, the outlook is promising for CPI's varied interests in the energy field – in oil and gas through Central-Del Rio, Panarctic Oils and TransCanada Pipe-Lines, in metallurgical and thermal coal properties through CanPac Minerals and Fording Coal, and in uranium through Rio Algom Mines.

Central-Del Rio Oils Limited
1970 was the first full year in which the combined management and staff of Central-Del Rio Oils and Canadian Pacific Oil and Gas Limited worked as a single organization. Plans to merge the two companies into one corporate entity are now under way.

As a result of growing markets, emphasis was again placed by Central-Del Rio on exploration for additional reserves of natural gas. An extensive geophysical program was continued mainly along the Foothills belt of southwestern Alberta and northeastern British Columbia and in the Northwest Territories. During the year the company drilled, or participated in the drilling of, 82 wells of which 25 were successfully completed as gas wells and 16 as oil wells. In addition, the company has varying interests in 16 oil wells, 61 gas wells and 2 dual oil and gas wells which were drilled during the year at no cost to the company under farm-out arrangements.

A major gas discovery was made during 1970 at Ferrybank in central Alberta. Production from this new field is expected to begin in 1971.

Gathering line to Central-Del Rio Oils gas discovery well in the Jumping Pound area of western Alberta.



Completion of successful oil wells at several locations in Alberta and southeastern Saskatchewan, and the effect of secondary recovery operations at Countess in Alberta and in the Lake Alma and Flat Lakes area of Saskatchewan, will contribute to increased production in 1971.

Some 600,000 net acres of mineral rights were acquired in 1970, mostly in the Northwest Territories but also along the Foothills belt of Alberta to consolidate holdings there. Continuing evaluation of petroleum and natural gas rights led to the surrender of approximately 3.6 million net acres, most of which were holdings in the provinces of Alberta and Saskatchewan, but also included were the rights in the British area of the North Sea. Rights off-shore from British Columbia and in Lake Erie were relinquished to avoid possible pollution.

Production of crude oil averaged a record high of 24,394 barrels per day. This was an increase of 2,269 barrels per day over production in 1969. Daily production of natural gas, at 162 million cubic feet, was 5 million cubic feet more than in the previous year. Natural gas liquids were produced at a rate of 2,192 barrels per day, slightly less than the 1969 rate of 2,216, and sulphur production averaged 224 long tons per day, a decrease of 41 tons per day from the prior year.

At the end of 1970 the estimated net proven and probable reserves totalled 203.6 million barrels of crude oil and natural gas liquids, compared with 189.6 million barrels at the end of 1969, and 1,637 billion cubic feet of natural gas compared with 1,428 billion cubic feet a year earlier.

Panarctic Oils Ltd.

Panarctic Oils Ltd., in which Central-Del Rio and Cominco Ltd. each hold a 9% interest, made its second major gas discovery during 1970. The second well, which was brought in on King Christian Island, gives indications of being Canada's largest gas discovery and, together with the previous gas discovery at Drake Point, demonstrates the potential of the Arctic islands. Completion of the current drilling program in 1971 will fulfill Panarctic's commitment under its farm-in agreements and enable that company to carry out a more flexible exploration program.

CanPac Minerals Limited

The exploration of coal properties in the province of Alberta was again the principal focus of the activities of CanPac Minerals Limited. With the possibilities of markets being developed in Canada and Europe, in addition to those in Japan, extensive programs were carried out on five potential coking and thermal coal properties. Initial results indicate that these properties contain sufficient reserves to justify large-scale production and work will be continued in 1971 to evaluate further their potential.

Fording Coal Limited

Despite a two-month work stoppage at mid-year, good progress was made in bringing towards production the Company's Fording River coal property in southeastern British Columbia. Planning for environmental protection includes a continuing program of reclamation and rehabilitation of the area as mining proceeds. The target date for full production at the mine is April 1972, when deliveries are scheduled to begin under the 45 million ton, 15-year contract with the Japanese.

TransCanada PipeLines Limited

Through its $61 million investment in TransCanada PipeLines, CPI has additional participation in the growth of markets for natural gas. Very large capital requirements over the next few years will tax the resources of TransCanada and it has recently applied for rate increases. TransCanada's active connection with a project for a natural gas pipeline from the northwestern frontiers of Canada and Alaska heightens interest in its long-term prospects.

Log carrier crosses laminated wood bridge built by Pacific Logging on Vancouver Island.

Air cargo facilities at Toronto International Airport operated by Marathon Aviation Terminals subsidiary.

Rio Algom Mines Limited
Although the market for uranium as a fuel has not lived up to its earlier promise, its potential is undiminished. CPI's investment in Rio Algom Mines Limited, which amounts to $28 million and represents a 10% interest, gives it a share in one of the world's largest uranium firms. Rio Algom currently has long-term contracts and other sales agreements for its Canadian uranium through 1983. It has entered the U.S. market through a subsidiary which is developing a new mine in Utah. Sales contracts for that production run from 1972 to 1980.

Metals, Fertilizers and Chemicals

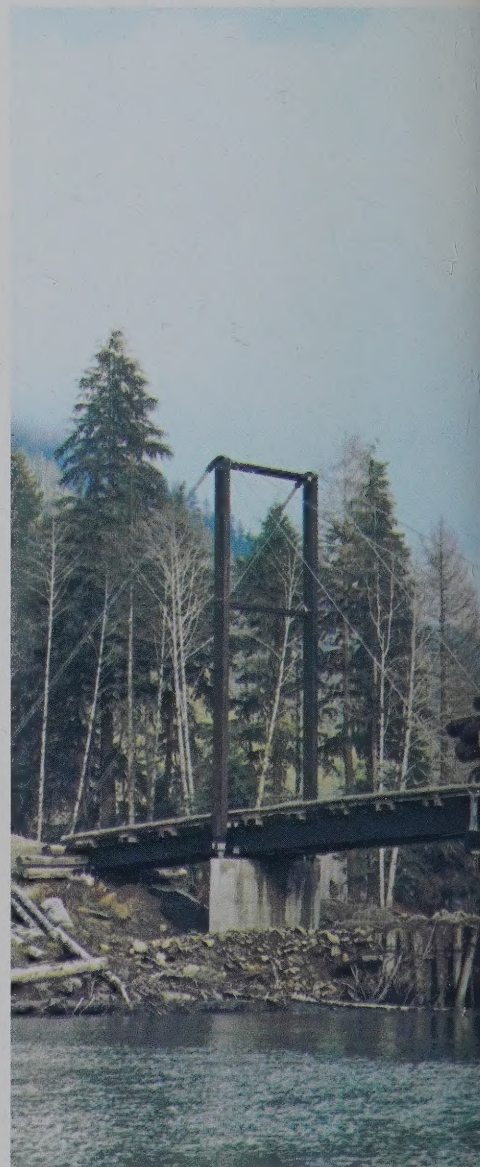
Interests in metals, fertilizers and chemicals are held through two subsidiaries – Cominco and CanPac Minerals – and two portfolio investments – Rio Algom Mines and Union Carbide Canada.

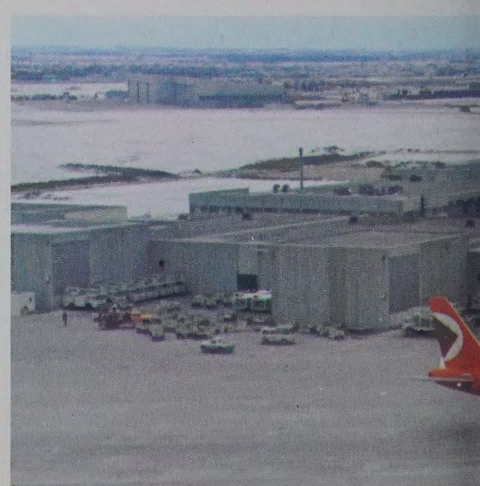
Cominco Ltd.
Cominco's major production areas of lead, zinc and fertilizers are being supplemented by moves into other minerals. Valley Copper Mines, a subsidiary of Cominco, has located a very large deposit of low grade copper ore in British Columbia. New engineering studies based on a revised operating rate have been completed and negotiations with regard to financing and marketing are under way which may lead to a production decision in 1971. Preliminary exploration work on other mineral properties both in Canada and abroad has been encouraging.

Production from Cominco's potash mine in Saskatchewan developed well until late August when a breach in one of the shafts resulted in flooding of the mine. Rehabilitation is proceeding satisfactorily. Hill Chemicals, Inc., in which Cominco has a 74% interest, established world production records at its ammonia plant in Texas.

Other Interests
Through its Rio Algom holding, CPI has a position in copper and molybdenum production and in steel manufacturing. With completion of the financing of Lornex Mining Corporation's Highland Valley copper-molybdenum project, Rio Algom's interest has increased to just over 50%. Production from the mine is planned to start in 1972.

The $18 million investment in Union Carbide Canada, representing 8% of the voting shares, gives CPI participation in chemicals and plastics and in industrial metals. This company is strong in research and development work and this, together with its balance of metals and chemicals, gives it a good base for future growth.





Forest Products

Through Pacific Logging, The Great Lakes Paper Company and MacMillan Bloedel, the Company has a substantial and well diversified investment in industries based on Canada's forests.

Pacific Logging Company Limited
While basically a market logger, the wholly-owned subsidiary Pacific Logging Company Limited has share interests in a number of west-coast lumber companies. In order to consolidate its activities and to employ the funds more profitably, Pacific Logging sold its lumber operation in the interior of British Columbia.

At the end of 1970 Pacific Logging owned approximately 290,000 acres of timberlands on Vancouver Island and held from the Province of British Columbia annual cutting rights for 30 million board feet, and other timber tenures.

It is the policy of Pacific Logging to carry out a continuous program of reforestation of logged timber lands to insure sustained production and to protect the environment. During 1970 more than two million seedlings were planted on approximately 4,500 acres of land. In co-operation with governments and other organizations, the company is active in research programs to improve the growth and quality of timber.

The Great Lakes Paper Company
Share purchases early in 1971 gave CPI a controlling interest in The Great Lakes Paper Company. Now totalling $43 million, this investment provides additional strength in the pulp and paper field. One of Canada's largest newsprint producers, the company sells primarily in the north-central area of the U.S. mid-west.

MacMillan Bloedel Limited
CPI's investment in MacMillan Bloedel Limited, amounting to $67 million, represents an 11% interest in that company. MacMillan Bloedel is Canada's largest fully integrated forest company and with its subsidiaries is engaged in manufacturing and marketing a wide range of pulp, paper and lumber products. Approximately 75% of its revenue is derived from exports. A leader in both the technical and marketing fields, MacMillan has a good record of growth.

Prospects
The immediate outlook for all three companies is clouded by the possibility that the economies of Canada and the United States will not pick up significantly until fairly late in 1971. Over the longer term, with housing needs growing and world consumption of paper and paper products rising sharply with increases in population and living standards, market prospects appear favorable. Like others in the forest industry, these companies face the problems of labor settlements which have exceeded productivity gains, of high costs of pollution abatement, and uncertainty about the value of the Canadian dollar.

Marathon Realty employee views model of proposed residential-commercial development.

Le Château Montebello at Montebello, Que., opened to the public by CP Hotels as a year-round resort-conference hotel.

Mount Royal House apartment building in Marathon Realty Palliser Square development, Calgary, Alta.

Newly renovated ballroom of the Empress Hotel, Victoria, B.C.

Hotels and Restaurants

The Canadian Pacific chain of hotels was originally created to accommodate railway passengers. Over the years some of these hotels – the Banff Springs, Le Château Frontenac, the Empress and the Royal York acquired international reputations for special atmosphere and high quality of service. CP Hotels is building on this reputation. It is undertaking renovation and modernization of certain hotel properties, adapting them to today's needs for facilities for conventions and business meetings and catering to changed tastes in social activity. However, due to their location some of the hotels lack good growth potential, and current tight money conditions have delayed plans for expanding in more promising areas.

Last year Le Château Champlain in Montreal was the only hotel in the province to be given a "Five Fleur Super" rating by the Quebec Tourism Department. This hotel has broken new ground in the provision of tasteful guest accommodation and a varied and exciting range of public dining facilities.

Le Baron Motor Hotel in Trois-Rivières was opened last May and it has proved popular in that area. Like Le Baron in Sherbrooke, it is operated under lease by CP Hotels.

During the year arrangements were completed under which the lodge and certain facilities previously used by the Seigniory Club at Montebello, Quebec were taken over by CP Hotels to be operated as a year-round hotel. The hotel is named Le Château Montebello and is now open to the public. Following the close of its 1970 summer season, the Algonquin Hotel, which had been operated as a Canadian Pacific summer resort hotel since 1907, was sold.

In March 1970, CP Hotels officially opened its first airport-based flight kitchen at Montreal International Airport. This facility is considered to be the most modern in Canada and provides in-flight meals for CP Air and other air carriers. A flight kitchen at Toronto International Airport is under construction and is expected to be completed for mid-1971.

A continuing effort to strengthen management and improve the effectiveness of marketing should increase the profitability of hotel and restaurant operations in future years.

Real Estate

The objective of providing stimulating environments in which people can work and live is not easily achieved. Marathon Realty Company has been working toward this objective, dealing with the problems of effective use of land and construction of well designed buildings for residential, commercial and industrial purposes. As a result of these activities, it is acquiring a background of experience and knowledge in assembly of land, in project planning, and in leasing and managing completed projects.

While subsidiary to its main activities, Marathon also owns a considerable acreage of agricultural lands in western Canada and, directly or through subsidiaries, is engaged in the operation of livestock markets, grain elevators and cold storage facilities. These lend diversification to its earnings. Last year, however, commercial real estate accounted for approximately 75% of the company's gross revenues.

Industrial Properties
In 1970 six new plants and warehouses were completed or were under construction in Marathon's industrial parks. Located in Montreal, Sudbury, Calgary and Edmonton, these parks accommodated a total of 47 companies at the end of the year. They provide more than two million square feet of space and have a developed acreage of about half of their serviced areas.

Other industrial projects completed to date, including the Keele Centre industrial complex in west-central Toronto, provide approximately half a million square feet of rentable space, which at year end was substantially leased.

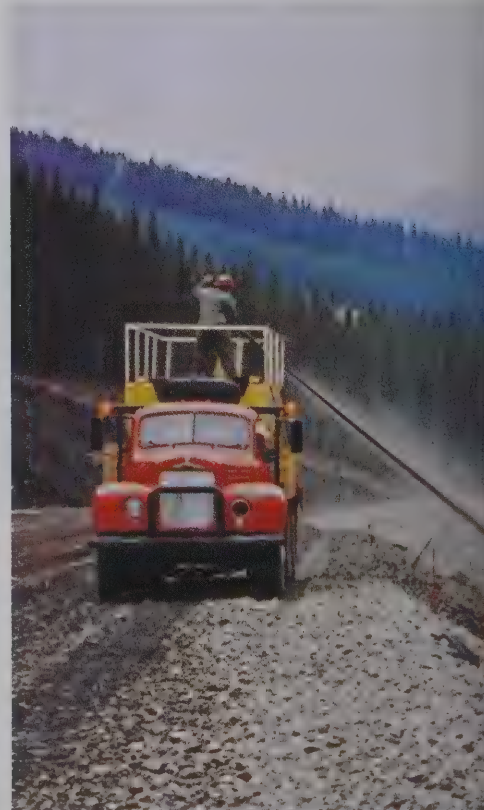
Commercial Developments
Two shopping centres, one at Kamloops, B.C. and the other at Lethbridge, Alberta were completed during 1970. At year end two others, one at Kelowna, B.C. and one at Galt, Ontario were under construction. These latter will bring to 24 the number of cities and towns from Quebec to British Columbia in which Marathon has planned and built, or is a participant in, commercial developments, most of them shopping centres. In many cases these centres are the biggest in their areas and set new standards for their communities in convenience, comfort and variety of shopping.

Marathon Aviation Terminals Limited
Marathon Aviation Terminals Limited, which is 50% owned by Marathon Realty, greatly expanded its interests in the development of airport ground facilities through the acquisition last year of Wig-Mar International Investments Limited. With the addition of Wig-Mar, which owns and operates the major air cargo facilities at Toronto International Airport, Marathon Aviation Terminals became the largest in Canada in its field. In 1970 it completed construction of two flight kitchens at Montreal International Airport and had one under construction at Toronto International Airport.

Palliser Square
Urban redevelopment is an important sphere of action for Marathon. In Calgary it has undertaken the development of a unique, fully integrated complex known as Palliser Square. This covers an area of almost two city blocks and has a gross area just under two million square feet. It includes stores and office space and a 202-suite apartment building known as Mount Royal House. By year end almost all of these facilities were completed. Under construction is a 26-storey office tower. The complex is being opened in phases and will be completed in 1971; it will require a period of intensive promotional effort under favorable economic conditions before the full earning potential of this project can be realized.

Re-seeding of Fording Coal property in southeastern British Columbia forms part of environmental protection program for project.

Underground operations at Cominco Pinchi Lake mercury mine in British Columbia.



Place du Canada
Place du Canada in Montreal is an outstanding example of a project which is out of its developmental period and doing well. Created as part of an integrated complex in downtown Montreal, connecting with the Montreal subway system and including Le Château Champlain, this complex includes a 28-storey office building with a gross area of over half a million square feet. More than 99% of the rentable area was leased by the end of 1970.

Plans are going ahead for early construction of an office building and related facilities on land adjacent to Windsor Station in Montreal. This is part of a projected redevelopment of a large area immediately west of Place du Canada to be undertaken over a period of years.

Project 200
In Vancouver, part of Marathon's extensive land holdings in the downtown waterfront area is being developed in association with others as Project 200. The first building, completed in 1969, was the five-storey communication centre and office building leased to CP Telecommunications. In the Spring of 1970 construction was begun on the first major phase of the plaza area, to be known as Granville Square. This phase includes a 30-storey high-rise office tower and adjoining low-rise financial and retail mall; it is expected to be completed by the Fall of 1972. Leasing is progressing on schedule, with current commitments approximating 60%.

Metro Centre
Planning of the complex Metro Centre project for downtown Toronto was advanced in 1970 by the securing of approval for the land use plan from the Toronto City Council and the City Planning Board. Agreement remains to be reached on the integration of transportation services in the development area.

Residential Projects
Marathon is involved in residential projects in Vancouver and Edmonton as well as in Calgary. In Vancouver it owns the 72-unit Shawnoaks garden apartment development which was completed in mid-1969 and is more than 90% leased. Also in Vancouver, it has a 65% interest under a partnership arrangement in the Langara Gardens project. After delays resulting from construction strikes, this 534-suite high-rise and garden apartment complex was substantially completed by the end of 1970 and is 85% leased. In Edmonton, Marathon has a 75% interest in a 20-storey, 220-suite apartment building which was completed in the Spring of 1969 and is fully leased.

Marathon's Objective
Every viable business venture is future-oriented, and this applies with particular force to real estate development, where there can be a considerable time lag between completion of a project and the realization of satisfactory returns. However, a successful operation requires not only long-range prospects but immediate earnings, and Marathon is steadily striving to achieve this necessary balance between long-term and short-term projects.

Canadian Pacific Securities Limited

During the year this company made two public debt issues of 20-year sinking fund debentures to fund a total amount of $65 million of the outstanding short-term borrowings.

Tight money conditions and anti-inflationary policies in the early part of the year kept interest rates near their all-time high. Monetary policies were eased in the latter part of the year with the result that short-term rates declined substantially and long-term rates drifted downward.

By year end the borrowings of CP Securities amounted to $221.7 million, an increase during the year of $26.5 million.

Corporate

Stock Holdings
At December 31, 1970 there were 25,078 registered shareholders of the Preferred shares, Series A, of whom 98.6% were Canadian registrants. At year end 50,088,304 Common shares were outstanding. Of these, 50 million were owned by Canadian Pacific Railway Company.

Statement of Consolidated Income for the year ended December 31

	1970	1969
		(in thousands)
Oil, Gas and Other Minerals		
Gross operating revenue	**$35,550**	$28,101
Expenses including income taxes	**24,647**	16,870
Net income	**10,903**	11,231
Timberlands and Related Facilities		
Sales and operating revenue	**27,623**	26,610
Expenses including income taxes	**25,940**	23,500
Net income	**1,683**	3,110
Real Estate and Related Operations		
Gross rentals and other income	**17,281**	13,236
Expenses including income taxes	**15,686**	11,165
Net income	**1,595**	2,071
Hotels and Restaurants		
Gross operating revenue	**47,169**	44,435
Expenses including income taxes	**46,292**	43,571
Net income	**877**	864
Financing		
Gross operating revenue	**18,185**	12,709
Expenses including income taxes	**18,059**	12,581
Net income	**126**	128
Investment Income		
Dividends		
Cominco Ltd.	**12,431**	12,431
Other subsidiary companies not consolidated	**95**	274
Other investment income	**10,613**	10,937
	23,139	23,642
Expenses including income taxes	**1,239**	1,517
Net income	**21,900**	22,125
Net Income from Operations		
(after income taxes of – 1970 – $9,961,000; 1969 – $11,890,000) (Note 9)	**37,084**	39,529
Equity in income of subsidiaries not consolidated in excess of dividends included above (Note 2)	**708**	1,425
Consolidated Income before Extraordinary Items	**37,792**	40,954
Extraordinary items (Note 8)	**1,510**	3,158
Consolidated Net Income (Note 7)	**$39,302**	$44,112
Earnings per common share after preferred dividends (Note 13)		
Consolidated income before extraordinary items	**66¢**	72¢
Consolidated net income	**69¢**	78¢

See Notes to Financial Statements

Statement of Consolidated Retained Income for the year ended December 31

	1970	1969
		(in thousands)
Balance, January 1		
As previously reported	**$145,724**	$125,826
Add (Deduct):		
Prior period adjustments (Note 7)	**(361)**	466
As restated	**145,363**	126,292
Add:		
Net income for the year	**39,302**	44,112
Equity in undistributed net income of Central-Del Rio Oils Limited for period prior to acquisition of majority interest	**—**	2,715
	184,665	173,119
Deduct:		
Dividends		
Preferred shares	**4,713**	4,724
Common shares	**23,706**	23,032
	28,419	27,756
Balance, December 31	**$156,246**	$145,363

See Notes to Financial Statements

Consolidated Investment Portfolio as at December 31, 1970

	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
			(in thousands)	
Common Stocks				
The Great Lakes Paper Company, Limited	1,800,922	49.98	$ 42,773	$ 33,317
Husky Oil Ltd.	522,200	5.40	5,979	7,898
The Investors Group	300,000	4.38	3,650	2,325
MacMillan Bloedel Limited	2,264,800	10.84	67,391	61,433
Northern and Central Gas Corporation Limited	420,000	2.87	5,880	6,510
Rio Algom Mines Limited	1,210,869	9.88	28,280	19,071
TransCanada PipeLines Limited	1,383,840	16.68	51,448	48,781
Union Carbide Canada Limited	825,300	8.25	18,375	12,173
Other			1,477	2,209
			225,253	193,717
Preferred Stocks			32,700	29,695
Bonds, Debentures and Notes			13,756	13,071
			$271,709	$236,483

Statement of Consolidated Source and Application of Funds
for the year ended December 31

		1970	1969 (in thousands)
Source of Funds			
Net income		**$ 39,302**	$ 44,112
Deduct: Equity in net income of subsidiaries not consolidated in excess of dividends received		**708**	3,831
		38,594	40,281
Depreciation, depletion and amortization		**16,371**	12,478
Deferred income taxes		**6,513**	7,111
Minority interest in income of a subsidiary		**1,324**	249
Funds from operations		**62,802**	60,119
Capital stock issued			
Common			
Issued	$108		
Less: Conversion of preferred shares	103	**5**	39
Increase in long term debt		**68,261**	23,585
Proceeds from disposal of properties		**3,602**	3,567
		$134,670	$ 87,310
Application of Funds			
Additions to investment portfolio		**$ 7,088**	$ 20,096
Investment in subsidiary companies not consolidated		**8,478**	2,394
Additions to other investments		**5,138**	1,738
Additions to properties		**67,419**	88,548
Dividends declared		**28,419**	27,756
Sundries (net)		**2,646**	(4,456)
Increase in working capital		**15,482**	(48,766)
		$134,670	$ 87,310

See Notes to Financial Statements

Consolidated Balance Sheet, December 31

	1970	1969 (in thousands)
Assets		
Current Assets		
Cash and temporary investments, at cost (approximates market)	$ 46,842	$ 100,830
Deposits with Canadian Pacific Railway Company	3,391	4,215
Demand loan – Canadian Pacific Railway Company	25,000	—
Demand loans and accrued interest – other affiliated companies	18,457	6,752
Dividends and other accrued interest receivable	1,940	3,347
Accounts receivable	14,762	16,090
Inventories, at the lower of cost and market	3,953	5,588
Prepaid expenses	1,248	1,232
	115,593	138,054
Investment Portfolio, at cost (market value 1970 – $236,483,000; 1969 – $249,468,000)	271,709	264,621
Investments in Subsidiary Companies not Consolidated (Note 2)		
Cominco Ltd.	188,545	187,894
Other	16,213	7,678
	204,758	195,572
Other Investments, at cost	24,243	19,105
Properties, at cost		
Oil, gas and other minerals	224,601	200,178
Timberlands and related facilities	62,213	65,696
Real estate and related operations	142,112	105,941
Hotels	68,401	65,496
	497,327	437,311
Less: Accumulated depreciation, depletion and amortization	85,126	72,597
	412,201	364,714
Other Assets	5,145	4,207
Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition	6,868	6,868
	$1,040,517	$ 993,141

Approved on behalf of the Board
Duff Roblin, Director
Ian D. Sinclair, Director

See Notes to Financial Statements

	1970	1969 (in thousands)
Liabilities		
Current Liabilities		
Accounts payable and accrued charges		
Canadian Pacific Railway Company	**$ 4,735**	$ 11,417
Other	**21,293**	19,407
Notes and accrued interest payable		
Subsidiary companies not consolidated	**55**	1,100
Other	**144,692**	178,856
Income and other taxes payable	**1,871**	2,942
Dividends payable	**12,186**	11,518
Long term debt maturing within one year	**12,136**	9,671
	196,968	234,911
Deferred Liabilities	**6,175**	6,982
Deferred Credits		
Deferred income taxes	**48,852**	42,339
Other	**1,276**	1,247
	50,128	43,586
Long Term Debt (Note 4)	**117,026**	48,765
Minority Shareholders' Interest in Subsidiary Company	**10,496**	10,060
Shareholders' Equity		
Capital Stock – (Note 3)		
Preferred shares		
Authorized – 12,500,000 shares of a par value of $20 each		
Issued – 4,958,873 (1969 – 4,964,046) 4¾% Cumulative Redeemable Convertible Voting, Series A	**99,177**	99,281
Common shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 50,088,304 (1969 – 50,077,538) shares	**322,501**	322,393
Paid-in surplus	**81,800**	81,800
Retained income (Note 3)	**156,246**	145,363
	659,724	648,837
	$1,040,517	$ 993,141

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1970 and the statements of consolidated income, consolidated retained income and consolidated source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd., we have relied upon the report of the auditors who examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
Montreal, Quebec, March 4, 1971.

Notes to Financial Statements

Note 1
Basis of Consolidation

The consolidated financial statements of Canadian Pacific Investments Limited (CPI) include the accounts of all wholly-owned subsidiaries (Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited, Canadian Pacific Securities Limited, CanPac Minerals Limited) and Central-Del Rio Oils Limited (CDR) in which CPI has an interest of 89.3%. The minority interest in income of CDR amounts to $1,324,000 for the year 1970 and $249,000 for the period October 1 to December 31, 1969.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

Note 2
Investments in Subsidiary Companies not Consolidated

The financial statements of Cominco Ltd., in which CPI has an interest of 53.18%, and other unconsolidated subsidiaries (including Fording Coal Limited in which $9,600,000 had been invested at December 31, 1970) are not consolidated because of the existence of substantial minority interests. However, the equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

An analysis of investments in unconsolidated subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other subsidiary companies not consolidated
	(in thousands)	
Cost of acquisition	$ 31,216	$ 12,534
Adjustment of cost of shares acquired from Canadian Pacific Railway Company to equity in underlying assets at December 31, 1963	81,800	—
Equity in net income since acquisition, less dividends received	53,246	13
Equity in other increases in retained income	2,283	—
	168,545	12,547
6¼ % Notes due May, 1972	20,000	—
Advances	—	3,666
	$188,545	$ 16,213

Note 3
Capital Stock

Each preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's option at $20 per share after November 1, 1972.

At December 31, 1970, 4,993,950 warrants for the purchase of common shares were outstanding. Each warrant entitles the holder to purchase one common share at $12 per share on or before November 1, 1971 and thereafter and on or before November 1, 1974 at $14 per share.

In 1970, a total of 10,766 common shares was issued, consisting of 420 shares on exercise of warrants and 10,346 shares on conversion of preferred shares.

Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. The amount of retained income available for such distributions was approximately $79,000,000 at December 31, 1970.

Note 4
Long Term Debt

	1970	1969
		(in thousands)
Canadian Pacific Securities Limited		
7½% bank term loan repayable in quarterly instalments of $1,000,000 with a final instalment of $2,000,000 payable on February 17, 1974	**$ 14,000**	$ 18,000
9½% Sinking Fund Debentures due 1990, sinking fund commencing in 1976	**25,000**	—
9⅜% Sinking Fund Debentures due 1990, sinking fund commencing in 1976	**40,000**	—
Marathon Realty Company Limited		
Sundry loans and mortgages repayable 1971 to 1975	**2,740**	—
Foundation – Scottish Properties Limited		
6½% First Mortgage Bonds, maturing 1995, annual sinking fund payments based on percentages of the amount outstanding at March 15, 1969, ranging from 1.649% in 1971 to 7.011% in 1994	**10,806**	11,176
Central-Del Rio Oils Limited		
*Term loans bearing interest at prime rate plus ¼% repayable in monthly instalments of $41,700	**1,810**	2,310
*Bank loans bearing interest at varying rates repayable in monthly instalments of $150,080	**10,806**	—
Canadian Pacific Oil and Gas Limited		
Term loans bearing interest at prime rate plus ½% repayable in equal semi-annual instalments 1971 to 1974	**16,000**	20,000
Pacific Logging Company Limited		
Term loans bearing interest at prime rate plus ½% repayable in equal semi-annual instalments 1971 to 1974	**8,000**	6,950
	129,162	58,436
Less: Long term debt maturing within one year	**12,136**	9,671
	$117,026	$ 48,765

*Secured by certain producing properties.

Annual maturities and sinking fund requirements for each of the five years following 1970 are: 1971, $12,136,000; 1972, $12,773,000; 1973, $12,798,000; 1974, $10,621,000; 1975, $3,641,000.

Note 5
Interest Expense

Interest on long term debt for 1970 was $8,245,000 (1969 – $3,623,000) and on short term notes $13,616,000 (1969 – $10,354,000).

Note 6
Depreciation, Depletion and Amortization

Amounts charged for depreciation, depletion and amortization in the statement of consolidated income were $16,371,000 in 1970 (1969 – $12,478,000).

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

The amount of depletion charged expenses for the year 1970 was $8,050,000 (1969 – $5,228,000) and the accumulated depletion at December 31, 1970 is $45,636,000 (1969 – $37,868,000).

Note 7
Prior Period Adjustments

Net income for 1969 has been restated to reflect the equity in the loss of Hill Chemicals, Inc., which became a subsidiary of Cominco Ltd. in 1970, and for the equity in a reduced charge for depreciation of Pine Point Mines Limited. These adjustments, and the effect of the Pine Point depreciation adjustment for years prior to 1969, have been restated in retained income.

Note 8
Extraordinary Items

Extraordinary items comprise, in 1970, gain on disposal of investments $670,000; and net gain on sale of a lumber mill by a subsidiary, $840,000; and, in 1969, net gain on disposal of investments, $752,000; equity in gains on sales of land and mining investments of Cominco Ltd., $1,655,000; and equity in reduction in income taxes of a subsidiary of Cominco Ltd. resulting from losses and tax credits of prior years, $751,000.

Note 9
Income Taxes

The provision for income taxes reflected in net income from operations, in the total amount of $9,961,000 (1969 – $11,890,000) includes $6,513,000 (1969 – $7,111,000) in respect of deferred income taxes.

The companies have followed the practice of charging against income both the income taxes currently payable and tax deferments resulting from timing differences between write-offs for book and for tax purposes. In computing deferred income taxes in respect of oil, gas and other minerals an estimated tax rate, which is less than the current effective rate, has been used. While The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has recommended the use of current effective rates in such a situation, CPI believes its procedures result in adequate provision for deferred income taxes. CPI's policy is more conservative than the general practice in the oil and gas industry in Canada, where the majority of companies do not provide any amounts for income tax deferred as a result of claiming drilling, exploration and lease acquisition costs in excess of amounts written off in the accounts (a practice which is accepted by accounting authorities outside Canada).

The additional amount which would have been provided if current effective tax rates had been used is $1,800,000 (1969 – $2,000,000). The total additional amount which would have been provided to December 31, 1970 is $13,700,000.

Note 10
Commitments and Contingencies

Commitments for capital expenditures were $16,000,000 at December 31, 1970 (1969 – $28,850,000).

CPI has guaranteed 60% and Cominco Ltd. 40% of bank loans aggregating U.S. $60,000,000 negotiated by Fording Coal Limited, a 60% owned subsidiary. At December 31, 1970, U.S. $7,400,000 had been drawn down.

Loans guaranteed by a subsidiary amounted to $3,026,000.

Note 11
Foreign Exchange

Cash and temporary investments include deposits with United States banks which have been translated into Canadian dollars at the current rates or rates established by forward commitments. Long term debt payable in United States dollars has been converted at rates ruling on the dates of issue. Other foreign currency items are converted at current rates. Gains or losses on exchange are included in or charged to income.

Note 12
Directors' and Officers' Remuneration

Remuneration paid to four directors and six officers by CPI amounted to $19,000 and $144,000 respectively. Remuneration paid by subsidiary companies to two directors and five officers of CPI in their capacities as directors and officers of subsidiary companies amounted to $180,000. Five officers of the Company are also directors.

Note 13
Earnings per Share

Assuming full dilution through conversion of preferred shares and exercise of warrants, earnings per share for 1970 would be 62¢ before extraordinary items and 64¢ in total. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of warrants has been assumed.

Five-year summary	1966	1967	1968	1969	**1970**
		Figures in thousands, except amounts per share			
Net income from operations					
Oil, gas and other minerals	$ 8,723	$ 10,609	$ 11,850	$ 11,231	**$ 10,903**
Timberlands and related facilities	(167)	542	2,435	3,110	**1,683**
Real estate and related operations	637	1,226	1,302	2,071	**1,595**
Hotels and restaurants	692	870	(443)	864	**877**
Financing	41	204	150	128	**126**
Investment income	22,119	19,793	22,948	22,125	**21,900**
	32,045	33,244	38,242	39,529	**37,084**
Equity in income of subsidiaries not consolidated	10,153	6,831	3,816	1,425	**708**
Consolidated income before extraordinary items	42,198	40,075	42,058	40,954	**37,792**
Extraordinary items	7,600	4,207	1,330	3,158	**1,510**
Consolidated Net Income	$ 49,798	$ 44,282	$ 43,388	$ 44,112	**$ 39,302**
Dividends — Preferred shares	—	—	$ 4,749	$ 4,724	**$ 4,713**
— Common shares	$ 20,065	$ 20,065	21,505	23,032	**23,706**
Number of Shares Outstanding					
Common	48,324	50,000	50,016	50,078	**50,088**
Preferred	—	5,000	4,993	4,964	**4,959**
Per Common Share after Preferred Dividends					
Consolidated income before extraordinary items	87¢	78¢	74¢	72¢	**66¢**
Consolidated net income	103	86	77	78	**69**
Dividends	41	40	43	46	**47.33**
Investments at year end					
Portfolio	$192,031	$239,026	$276,031	$264,621	**$271,709**
Subsidiaries not consolidated	149,211	177,223	189,670	195,572	**204,758**
Properties	160,027	194,665	242,594	364,714	**412,201**

PRINTED IN CANADA